Supreme Court, U.S.
FILED
AUG 6 1997
CLERK

No. 96-1470

IN THE

Supreme Court of the United States

OCTOBER TERM, 1997

QUALITY KING DISTRIBUTORS, INC.,
Petitioner,

v.

L'ANZA RESEARCH INTERNATIONAL, INC.,
Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Ninth Circuit

---

BRIEF FOR PETITIONER

ALLEN R. SNYDER*
JONATHAN S. FRANKLIN
HOGAN & HARTSON L.L.P.
555 Thirteenth Street, N.W.
Washington, D.C. 20004
(202) 637-5741

WILLIAM T. RINTALA
J. LARSON JAENICKE
MELODIE K. LARSEN
RINTALA, SMOOT, JAENICKE & REES
10351 Santa Monica Boulevard
Suite 400
Los Angeles, CA 90025
(310) 203-0935

*Counsel of Record

Counsel for Petitioner

43 pp

QUESTION PRESENTED

May a U.S. copyright holder, which manufactures and first sells to a foreign purchaser a consumer product with a copyrighted label, sue a subsequent purchaser of the same copy of the product for infringement of its distribution rights under Section 602(a) of the Copyright Act, or does the first sale doctrine contained in Section 109(a) bar the lawsuit?

PARTIES TO THE PROCEEDINGS

All parties in this Court appear in the caption of the case. Petitioner Quality King Distributors, Inc. has no parent companies or non-wholly owned subsidiaries that have issued shares to the public.

TABLE OF CONTENTS

	Page
QUESTION PRESENTED	i
PARTIES TO THE PROCEEDINGS	ii
TABLE OF AUTHORITIES	v
OPINIONS BELOW	1
JURISDICTION	1
PERTINENT STATUTES	2
STATEMENT OF THE CASE	2
1. Material Facts	3
2. Procedural History	5
3. The Lawful Practice of Parallel Importation	7
SUMMARY OF ARGUMENT	9
ARGUMENT	12
I. UNDER THE PLAIN LANGUAGE OF THE COPYRIGHT ACT, L'ANZA'S SALE OF ITS GOODS PREVENTS IT FROM BLOCKING IMPORTATION OR OTHER DISTRIBUTION OF THOSE GOODS	12
II. THE LEGISLATIVE HISTORY DOES NOT COMPEL A CONTRARY RESULT	17
A. Legislative History of Section 602(a)	18
B. Legislative History of Section 109(a)	19
C. Informal Panel Discussions on 1976 Act	21

TABLE OF CONTENTS—Continued

	Page
III. APPLYING SECTION 109(a) IN THIS CASE DOES NOT RENDER SECTION 602(a) MEANINGLESS	23
A. Section 602(a) Provides an Additional Remedy That Would Otherwise Not Exist	24
B. Section 602(a) Applies to Non-Piratical Copies	25
IV. THE POLICIES OF THE COPYRIGHT ACT DO NOT SUPPORT THE DECISION BELOW	29
CONCLUSION	34

TABLE OF AUTHORITIES

	Page
CASES:	
Barnhill v. *Johnson*, 503 U.S. 393 (1992)	18
Blum v. *Stenson*, 465 U.S. 886 (1984)	18
BMG Music v. *Perez*, 952 F.2d 318 (9th Cir. 1991), *cert. denied*, 505 U.S. 1206 (1992)	28
Bobbs-Merrill Co. v. *Straus*, 210 U.S. 339 (1908)	19-20, 30, 32
Columbia Broadcasting System, Inc. v. *Scorpio Music Distributors, Inc.*, 569 F. Supp. 47 (E.D. Pa. 1983), *aff'd without opinion*, 738 F.2d 421 (3d Cir. 1984)	28
Denbicare U.S.A. Inc. v. *Toys "R" Us, Inc.*, 84 F.3d 1143 (9th Cir.), *cert. denied*, 117 S. Ct. 190 (1996)	28, 32
Disenos Artisticos E Industriales, S.A. v. *Costco Wholesale Corp.*, 97 F.3d 377 (9th Cir. 1996)	14
Garcia v. *United States*, 469 U.S. 70 (1984)	18
Harper & Row, Publishers, Inc. v. *Nation Enterprises*, 471 U.S. 539 (1985)	12, 13
Harrison v. *Maynard, Merrill & Co.*, 61 F. 689 (2d Cir. 1894)	32
Higgins v. *Keuffel*, 140 U.S. 428 (1891)	33
Hotaling v. *Church of Jesus Christ of Latter-Day Saints*, __ F.3d __, 1997 WL 356930 (4th Cir. June 30, 1997)	24
Independent News Co. v. *Williams*, 293 F.2d 510 (3d Cir. 1961)	32
K Mart Corp. v. *Cartier, Inc.*, 486 U.S. 281 (1988)	7, 8, 29, 33
Kelly v. *Robinson*, 479 U.S. 36 (1986)	21
Little, Brown & Co. v. *American Paper Recycling Corp.*, 824 F. Supp. 11 (D. Mass. 1993)	26

TABLE OF AUTHORITIES—Continued

	Page
Microsoft Corp. v. *Harmony Computers & Electronics, Inc.*, 846 F. Supp. 208 (E.D.N.Y 1994)	27
National Car Rental System, Inc. v. *Computer Associates International, Inc.*, 991 F.2d 426 (8th Cir.), *cert. denied*, 510 U.S. 861 (1993)	24
NEC Electronics v. *CAL Circuit Abco*, 810 F.2d 1506 (9th Cir.), *cert. denied*, 484 U.S. 851 (1987)	8
Parfums Givenchy, Inc. v. *Drug Emporium, Inc.*, 38 F.3d 477 (9th Cir. 1994), *cert. denied*, 514 U.S. 1004 (1995)	14, 28
Sebastian International, Inc. v. *Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093 (3d Cir. 1988)	6, 15-16, 17, 31
Societe Des Produits Nestle, S.A. v. *Casa Helvetia, Inc.*, 982 F.2d 633 (1st Cir. 1992)	8
Sony Corp. of America v. *Universal City Studios, Inc.*, 464 U.S. 417 (1984)	12, 13, 17, 30, 31
Stewart v. *Abend*, 495 U.S. 207 (1990)	30
Teleprompter Corp. v. *Columbia Broadcasting System, Inc.*, 415 U.S 394 (1974)	33
Toibb v. *Radloff*, 501 U.S. 157 (1991)	18
United States v. *Drebin*, 557 F.2d 1316 (9th Cir. 1977), *cert. denied*, 436 U.S. 904 (1978)	27
United States v. *Paramount Pictures, Inc.*, 334 U.S. 131 (1948)	30
United States v. *Wise*, 550 F.2d 1180 (9th Cir.), *cert. denied*, 434 U.S. 929 (1977)	27

CONSTITUTIONAL AND STATUTORY PROVISIONS:

U.S. Const. art. I, § 8, cl. 8	12
17 U.S.C. § 106	*passim*

TABLE OF AUTHORITIES—Continued

	Page
17 U.S.C. § 106A	16
17 U.S.C. § 107	17
17 U.S.C. § 602(a)	*passim*
17 U.S.C. § 109(a)	*passim*
19 U.S.C. § 1526	8
28 U.S.C. § 1254(1)	1
Act of July 30, 1947, ch. 391, § 27, 61 Stat. 652, 660	20
Act of Mar. 4, 1909, ch. 320, § 41, 35 Stat. 1075, 1084	20

LEGISLATIVE MATERIALS:

Copyright Law Revision, Part 1: Hearings Before the Subcomm. No. 3 of the House Comm. on the Judiciary, 89th Cong., 1st Sess. (1965)	22
H.R. Rep. No. 735, 101st Cong., 2d Sess. (1990)	30
H.R. Rep. No. 1476, 94th Cong., 2d Sess. (1976)	*passim*
H.R. Rep. No. 2222, 60th Cong., 2d Sess. (1909)	20
S. Rep. No. 473, 94th Cong., 1st Sess. (1975)	*passim*
Staff of House Comm. on the Judiciary, 89th Cong., 1st Sess., *Copyright Law Revision, Part 6: Supplementary Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law* (Comm. Print 1965)	16
Staff of House Comm. on the Judiciary, 88th Cong., 2d Sess., *Copyright Law Revision, Part 4: Further Discussion and Comments on Preliminary Draft for Revised U.S. Copyright Law* (Comm. Print 1964)	22, 23, 26, 28

TABLE OF AUTHORITIES—Continued

Page

Staff of House Comm. on the Judiciary, 88th Cong., 1st Sess., *Copyright Law Revision, Part 2: Discussion and Comments on Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law* (Comm. Print 1963).....21, 26, 29

Staff of House Comm. on the Judiciary, 87th Cong., 1st Sess., *Copyright Law Revision: Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law* (Comm. Print 1961)..... 29

OTHER AUTHORITIES:

Jamie S. Gorelick & Rory K. Little, *The Case for Parallel Importation*, 11 N.C. J. Int'l L. & Comm. Reg. 205 (1986) 7

Melville B. Nimmer & David Nimmer, *Nimmer on Copyright* (1997) 24, 26

Restatement (Second) of Contracts (1981)..... 31

IN THE

Supreme Court of the United States

OCTOBER TERM, 1997

No. 96-1470

QUALITY KING DISTRIBUTORS, INC.,
Petitioner,

v.

L'ANZA RESEARCH INTERNATIONAL, INC.,
Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Ninth Circuit

---

BRIEF FOR PETITIONER

OPINIONS BELOW

The opinion of the Court of Appeals is reported at 98 F.3d 1109 and is reproduced in the appendix to the petition ("Pet. App.") at page A1. The opinion of the District Court is unreported and is reproduced at Pet. App. B1.

JURISDICTION

The judgment of the Court of Appeals was entered on October 22, 1996. Petitioner's timely petition for rehearing and suggestion for rehearing *en banc* were denied on December 16, 1996. The petition for a writ of certiorari was filed on March 17, 1997 and was granted on June 2, 1997. The jurisdiction of this Court is invoked pursuant to 28 U.S.C. § 1254(1).

PERTINENT STATUTES

Section 106 of the Copyright Act of 1976, 17 U.S.C. § 106, provides in pertinent part:

> Subject to sections 107 through 120, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following:
>
> * * *
>
> (3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease or lending; * * * .

Section 109(a) of the Copyright Act of 1976, 17 U.S.C. § 109(a), provides in pertinent part:

> Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.

Section 602(a) of the Copyright Act of 1976, 17 U.S.C. § 602(a), provides in pertinent part:

> Importation into the United States, without the authority of the owner of copyright under this title, of copies or phonorecords of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies or phonorecords under section 106, actionable under section 501.

STATEMENT OF THE CASE

In this case, respondent L'anza Research International, Inc. ("L'anza") seeks to use the Nation's copyright laws to block the sale by petitioner Quality King Distributors, Inc. ("Quality King") of an imported consumer product bearing a copyrighted label, notwithstanding that the product was lawfully made and first introduced into the stream of commerce by L'anza itself. The goal of L'anza's action is to assist it in imposing on unrelated distributors a discriminatory pricing regime through which L'anza seeks to maintain a higher resale price for its goods in the United States than in foreign countries.

As explained below, the plain language of the Copyright Act does not permit L'anza to use the statute to further this commercial strategy. L'anza contends, and the Ninth Circuit agreed, that Quality King violated Section 602(a) of the Copyright Act of 1976, 17 U.S.C. § 602(a), which provides that importation of a copyrighted work acquired abroad is an infringement of the copyright owner's distribution rights under Section 106 of the Act. However, under the so-called "first sale" doctrine, codified in Section 109(a) of that Act, 17 U.S.C. § 109(a), once a copyright owner has sold a copyrighted work, the owner cannot sue a subsequent third-party reseller such as Quality King for infringement of the owner's exclusive distribution rights—regardless of whether the alleged violation occurs through normal distribution or, as here, through importation as provided in Section 602(a).

Accordingly, if L'anza wishes to enforce a discriminatory resale pricing strategy, it can seek to do so through lawful contractual means. But L'anza may not employ the Copyright Act to achieve its trade objectives. That statute was intended to provide authors with limited rights to control the reproduction and first distribution of their intellectual works. Its plain language does not permit L'anza to use its nominal copyright on the labels of its products as a means of enforcing its strategy of maintaining inflated domestic prices for the products themselves.

1. Material Facts

L'anza is a United States corporation that manufactures and distributes hair care products. Pet. App. A2. The individual owners of L'anza also own a 40% interest in Planetary Eco, Ltd., which serves as the United Kingdom distributor for L'anza products. J.A. 65; Pet. App. A2. In 1992 and 1993, L'anza sold three separate shipments of its products to Planetary Eco at prices that were 35-40% lower than the prices that L'anza charged its United States distributors for

the same goods. Pet. App. B2; J.A. 64, 67. Planetary Eco, in turn, sold the goods to L. Intertrade, a company located on the island of Malta. Pet. App. A2.

The goods in question were manufactured by L'anza itself in the United States. Pet. App. A2. L'anza shipped the goods from the United States for delivery to L. Intertrade in Malta, although the record is unclear whether the goods ever arrived there. Pet. App. A2, A3 n.1. At the time it sold and shipped the goods, L'anza understood that they would be distributed in Malta and "possibly Libya." Pet. App. A2; J.A. 65. Planetary Eco, perhaps due to the U.S. embargo on exports to Libya, requested that no documents other than the packing list be sent with the shipments to L. Intertrade. J.A. 79. None of the invoices issued to Planetary Eco contained any restrictions on where the goods could be sold, and there is no evidence that any of the goods contained markings that would notify a prospective purchaser that they were not to be sold in the United States. J.A. 70, 75, 77. Although L'anza introduced conclusory testimony below that the goods were intended to be sold only in Malta or Libya, it produced no documents under which either Planetary Eco or L. Intertrade agreed to such restrictions.

At some point after L'anza introduced the goods into the stream of commerce, at least some of them were acquired by Priva Corporation, a United States company located in California. *See* Declaration of John K. McKasson ¶ 7 & Ex. 6 thereto (R. 88). Priva then sold those goods to Quality King. *Id.* Quality King is a discount wholesaler that routinely buys large quantities of a wide variety of genuine consumer products—both imported and domestic—at the lowest possible price and then resells the products to discount retailers. In the trial court, L'anza produced no evidence that Quality King was the importer of the goods. Rather, as the District Court noted, L'anza alleged only that some of the products that were sold to L. Intertrade "were imported into the United States where they passed through the stream of commerce until they were purchased by Quality King in the

ordinary course of its business." Pet. App. B3.[1] Quality King then sold the L'anza products to various discount drug stores, which offered the products for retail sale to the public. Pet. App. A2, A3. In January 1994, L'anza registered the copyrights for the labels on at least some of those products. Pet. App. A3.

There is no dispute that the goods at issue in this case are genuine goods manufactured and first sold by L'anza itself, and there is likewise no allegation that the products or their labels were improperly copied, altered or adulterated in any way. Nevertheless, L'anza brought this action against Quality King, six discount drug stores that had purchased the goods, L. Intertrade, and two individuals.[2] L'anza alleged, among other things, that Quality King had violated Section 602(a). J.A. 23. Quality King responded by denying liability for copyright infringement and by asserting, among other things, that because L'anza had itself introduced the products into the stream of commerce, the first sale doctrine codified in Section 109(a) prevented L'anza from prevailing in an action against Quality King—the lawful owner of goods lawfully made—for allegedly violating Section 602(a). J.A. 44.

2. Procedural History

L'anza moved for partial summary judgment on the question of whether the first sale doctrine barred this action. J.A. 47. The District Court granted the motion, holding that

---

[1] The Ninth Circuit, without any citation to the record, stated in *dicta* that Quality King had imported the goods. *See* Pet. App. A2, A17. As explained above, however, the factual record before the district court makes clear that the Ninth Circuit was mistaken. Indeed, L'anza had asserted that it was irrelevant whether Quality King had any connection with the importation. *See* Memorandum of Points and Authorities of Plaintiff L'anza Research International in Support of Its Motion for an Order Specifying Issues That Exist Without Substantial Controversy as to Defendant Quality King Distributors, Inc. at 10-13 (R. 57).

[2] The claims against the drug stores were eventually settled. L. Intertrade and the individuals never appeared in this action.

because the goods in question had been imported into the United States without L'anza's authorization—regardless of whether Quality King was itself the importer—Quality King was liable for infringement under Section 602(a) and the first sale doctrine provided no defense. Pet. App. B3; J.A. 103. The court reasoned that "Congress * * * could not have envisioned that the first sale doctrine could create a situation where the copyright holder must compete in the United States against its own copies or refrain from selling its copies at different prices for different markets." Pet. App. B8. The parties then stipulated to the amount of damages that would be applicable if the District Court's liability decision were correct, and judgment was entered for that amount. J.A. 113. The court also entered a permanent injunction enjoining Quality King from importing or selling specified L'anza products. J.A. 109.

Quality King appealed, and the Ninth Circuit affirmed, expressly rejecting the Third Circuit's contrary holding in *Sebastian International, Inc.* v. *Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093 (3d Cir. 1988). The Ninth Circuit recognized that, under the first sale doctrine, "once the copyright owner has voluntarily sold his work to the public, the new owner may transfer or sell the copy without the permission of the owner, pursuant to § 109." Pet. App. A11. The court also recognized that "[t]he legislative history of the 1976 Copyright Act contains no explicit reference to the interaction between §§ 602(a) and 109(a)." Pet. App. A12. Nevertheless, without even analyzing the relevant statutory language in any detail, the court held that applying the first sale doctrine in this case would "undercut[ ] L'anza's ability to receive the full value for L'anza products sold in the United States through authorized channels, notwithstanding the fact that the imported products were manufactured in the United States and sold by L'anza." Pet. App. A14. Under this conception of Section 602(a)'s purpose, the court held that the statute "would be rendered meaningless" if Quality King were permitted to avail itself of the protections of Section 109(a). Pet. App. A9, A11.

3. The Lawful Practice of Parallel Importation

In its broader context, this case concerns a variant of the lawful practice of "parallel importation," also referred to as the "gray market."[3] As described by this Court in *K Mart Corp.* v. *Cartier, Inc.*, 486 U.S. 281 (1988), "[a] gray-market good is a foreign-manufactured good, bearing a valid United States trademark, that is imported without the consent of the United States trademark holder." *Id.* at 285.[4] Due to the obvious benefits it provides to consumers, parallel importation is now a legitimate "multibillion dollar industry." *Id.* at 295 (Brennan, J., concurring and dissenting).

Opponents of the practice—primarily manufacturers and their affiliates who, like L'anza, wish to maintain higher prices for their products in this country—"have waged a full-scale battle in legislative, executive, and administrative fora," directed at attempting to block parallel importation through customs statutes and regulations. *Id.* at 295-296. But "[l]argely unsuccessful in the political branches," the manufacturers "have more recently brought the battle to the courts." *Id.* at 296.

---

[3] The term "parallel importation" refers generally to the practice of importing goods that "have not been obtained directly from 'authorized' United States dealers. The purchase, importation and sale of such goods is said to be 'parallel' to the channels 'authorized' by the international trademark owners." Jamie S. Gorelick & Rory K. Little, *The Case for Parallel Importation*, 11 N.C. J. Int'l L. & Comm. Reg. 205, 205 n.1 (1986). The term "gray market" is typically used by opponents of the practice because it bears an "innuendo of impropriety or borderline legality." *Id.* at 207 n.5. As this case demonstrates, however, "[t]here is * * * nothing underhanded about the business practice at issue. The goods are the authentic trademarked items, purchased openly on the open market. The goods are declared, customs duties are paid, and the products are sold in the United States by reputable, well-established domestic retailers." *Id.*

[4] This case does not fall within that precise description, as the goods in question were manufactured in the United States.

Like their other efforts, however, the manufacturers' attempts to use the courts to stop lower-price retailers have largely failed as well. These efforts initially focused on the areas of law that would appear to be most directly implicated by parallel importation—trademark and customs laws. The trademark challenges, predicated on the Lanham Act, have failed for the most part, principally because parallel importation involves genuine goods lawfully manufactured under the auspices of the trademark owner or an affiliate and therefore does not create any risk of confusion in the minds of the consuming public. *See, e.g., Societe Des Produits Nestle, S.A.* v. *Casa Helvetia, Inc.*, 982 F.2d 633, 639 (1st Cir. 1992); *NEC Electronics* v. *CAL Circuit Abco*, 810 F.2d 1506, 1509 (9th Cir.), *cert. denied*, 484 U.S. 851 (1987). Likewise, the manufacturers' attempts to use the customs laws foundered with this Court's decision in *K Mart*. In that case, the Court upheld Customs Service regulations, issued under Section 526 of the Tariff Act of 1930, 19 U.S.C. § 1526, that prevent domestic affiliates of foreign manufacturers from blocking the importation of genuine goods manufactured abroad.

In light of these precedents, L'anza could not prevail in an action against Quality King for violating any provision of trademark or customs law. The goods in question were manufactured by L'anza itself in the United States and are identical to other genuine L'anza products sold here. Accordingly, L'anza had no cause of action under the trademark laws. And because the goods are of domestic, not foreign, manufacture, L'anza could not avail itself of the protections of the Tariff Act.[5]

---

[5] In an action currently pending in the California state courts, L'anza alleged that Quality King committed various state law business torts in connection with the sale of other L'anza products. The jury found in favor of L'anza in that matter, but Quality King has appealed that judgment to the California Court of Appeal. *See L'anza Research Int'l, Inc.* v. *Quality King Distributors, Inc.*, No. 2 Civil B097409 (Cal. Ct. App.).

Nevertheless, because its hair care products happen to contain a small amount of copyrighted material on the labels, L'anza has sought to use the Copyright Act to achieve what it could not under other areas of law. In this case, L'anza is attempting to use its rights as the "author" of its labels to promote its broader strategy of maintaining inflated domestic prices for the underlying products themselves. As explained below, however, neither the plain language of the Copyright Act nor its legislative history or policies allow L'anza to use its limited creative rights to further its commercial resale pricing strategy.

SUMMARY OF ARGUMENT

The Ninth Circuit erred in holding that the first sale doctrine contained in Section 109(a) of the Copyright Act provides no defense to L'anza's claim that Quality King infringed L'anza's distribution rights under Section 602(a). Section 109(a) provides that "the owner of a particular copy or phonorecord lawfully made under this title" is entitled to sell or otherwise dispose of that copy without the authority of the copyright owner. 17 U.S.C. § 109(a). Pursuant to that plain language, Quality King—the lawful owner of goods lawfully made—was entitled to sell or otherwise dispose of those copies.

Nothing in Section 602(a) overrides the blanket authorization of Section 109(a). Section 602(a) provides only that unauthorized importation of copyrighted works is an infringement "of the exclusive right to distribute copies or phonorecords *under section 106*." *Id.* § 602(a) (emphasis supplied). That exclusive right to distribute is found in Section 106(3), which itself is expressly made "[s]ubject to sections 107 through 120." *Id.* § 106(3). And Section 109(a), in turn, expressly states that its defense applies "[n]otwithstanding the provisions of section 106(3)." *Id.* § 109(a). Accordingly, pursuant to the plain language of these statutes, Quality King was entitled to sell or otherwise dispose of the goods containing L'anza's copyrighted labels without infringing L'anza's exclusive right of distribution—including that aspect of the distribution right elucidated in

Section 602(a). When Congress intends to create an independent right under the Copyright Act that is not subject to the exceptions in Sections 106 through 120, it does so expressly. It did not do so here. Rather, Congress expressly made Section 602(a) an additional component of the distribution right under Section 106 and, as such, necessarily rendered Section 602(a) subject to the first sale defense.

Because the plain language of the statutes dictates the proper result in this case, there is no cause for the Court to consult the legislative history. But even if the Court were to do so, the relevant legislative history confirms that Congress intended Section 602(a) to apply only where the subsequent distribution of copyrighted works would itself be an infringement of the copyright owner's exclusive right of distribution under Section 106(3). Thus, the legislative history confirms what is apparent from the statutory language itself: in situations where Section 109 would not allow a copyright owner to block domestic distribution, it likewise would not allow the copyright owner to block importation.

Contrary to the holding of the Ninth Circuit, such an interpretation would not render Section 602(a) meaningless. Because the mere act of importation is not otherwise covered by Section 106(3), absent Section 602(a) a copyright owner would have no ability to block the importation of a copyrighted work in circumstances where subsequent public dissemination would infringe the owner's exclusive distribution rights. Section 602(a) therefore provides the copyright owner with an important remedy that otherwise would not exist, potentially obviating the need for the copyright owner to pursue multiple, costly lawsuits against subsequent distributors.

Because Section 602(a) clearly has "meaning" when interpreted in this manner, there is no cause for the Court to opine in this case on the hypothetical situations in which Section 602(a) might prevent importation of copyrighted works notwithstanding the applicability of Section 109(a). But to the extent such an inquiry is relevant here, there are many such possible instances—including piratical works,

stolen works, works imported by licensees who lack title to them, and works made by foreign copyright holders without the express or implicit authorization of an unrelated United States copyright holder. This case, however, does not present any of those situations, as there is no dispute that Quality King is the lawful owner of copies lawfully made within the meaning of Section 109(a).

Finally, Quality King's interpretation, unlike the Ninth Circuit's, is wholly consistent with the policies underlying the Copyright Act. The Court has stressed that copyright law was intended primarily to motivate the creativity of authors, and makes reward to the owner a secondary consideration. Consistent with these concerns, the first sale doctrine balances the copyright owner's right to control the first public distribution of its copyrighted works against the public's interest in unfettered access to those works once the copyright owner has parted with them. The Ninth Circuit's interpretation of Section 602(a) as a device for promoting private resale pricing strategies, even after the copyright owner has received its price for its works, is contrary to those policies.

The Ninth Circuit's focus on whether the copyright owner has received "full value" for copies that find themselves abroad would create unjustified barriers to free commerce in goods containing copyrighted material. Each importer and subsequent reseller would have to search the chain of title and determine whether the copyright owner received what some court might consider "full" value for the work. Moreover, the Ninth Circuit's rule would improperly foster a two-tiered system under which imported works sold by a copyright owner, unlike identical works that never leave the country, would continue to be subject to the copyright owner's control over their importation and subsequent distribution. The Court should not impose such draconian restrictions on free trade and commerce where Congress has not. If L'anza wishes to implement a commercial price discrimination strategy, it may seek to do so through contractual remedies or other lawful private means. But it

may not use its status as the nominal "author" of its labels to implement that strategy through the Copyright Act.

ARGUMENT

I. UNDER THE PLAIN LANGUAGE OF THE COPYRIGHT ACT, L'ANZA'S SALE OF ITS GOODS PREVENTS IT FROM BLOCKING IMPORTATION OR OTHER DISTRIBUTION OF THOSE GOODS

The Constitution grants Congress the power "[t]o Promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries." U.S. Const. art. I, § 8, cl. 8. The protection given to copyrights, however, "is wholly statutory," and the Copyright Act "has never accorded the copyright owner complete control over all possible uses of his work." *Sony Corp. of America* v. *Universal City Studios, Inc.*, 464 U.S. 417, 431, 432 (1984). Rather, Section 106 of the Act grants the copyright holder exclusive rights to use his or her work "in five qualified ways," *id.* at 433, including " 'the right to control the first public distribution' " of the work. *Harper & Row, Publishers, Inc.* v. *Nation Enterprises*, 471 U.S. 539, 552 (1985) (quoting H.R. Rep. No. 1476, 94th Cong., 2d Sess. 62 (1976) [hereinafter "House Report"]).

Specifically, Section 106(3) provides that:

> Subject to sections 107 through 120, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following:
>
> * * *
>
> (3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease or lending; * * * .

17 U.S.C. § 106(3).

This exclusive right of distribution under Section 106(3) is further explicated in Section 602(a), which provides:

> Importation into the United States, without the authority of the owner of copyright under this title, of copies or phonorecords of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies or phonorecords under section 106, actionable under section 501.

17 U.S.C. § 602(a). Thus, pursuant to Section 602(a), the act of importing copies acquired outside the United States—which the copyright owner otherwise would be unable to control—is considered to be an infringement of the exclusive distribution right "under section 106." *Id.*

None of the copyright owner's exclusive rights, however, is absolute. Rather, as the opening clause of Section 106 confirms, "the copyright owner's rights * * * are subject to certain statutory exceptions," which are contained in Sections 107 through 120. *Harper & Row*, 471 U.S. at 547; *see Sony*, 464 U.S. at 447. Among these exceptions is Section 109(a), the "first sale" doctrine, which provides in pertinent part:

> Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.

17 U.S.C. § 109(a).

The principal question in this case is whether Section 602(a), like the other components of the distribution right, is limited by the first sale doctrine of Section 109(a). The Ninth Circuit held that "it is unclear whether § 602(a) creates a right that is distinct from § 106(3) and therefore is not limited by § 109(a), or alternatively, whether § 602(a) is merely an extension of § 106(3) and therefore *is* limited by § 109(a)." Pet. App. A6 (emphasis in original). Having thus concluded that the statutory language was ambiguous on this point, the court proceeded to hold, on the basis of policy considerations purportedly gleaned from legislative history, that a copyright owner's right to block importation under Section

602(a) is absolute, and is not subject to the first sale doctrine of Section 109(a). Under this interpretation, a copyright owner who voluntarily sold copies of his or her works would still be able to control the importation (and subsequent distribution)[6] of the same copies acquired abroad, no matter how many times the copies had been sold in the interim.

Contrary to the Ninth Circuit's holding, however, the statutory language conclusively answers the principal question posed by this case. The safe harbor provided by Section 109(a) is unqualified. Under its plain language, the "owner of a particular copy or phonorecord lawfully made" is entitled "to sell or otherwise dispose of the possession of that copy or phonorecord." *Id.* There is no dispute in this case that the copyrighted labels on the L'anza products acquired by Quality King were "lawfully made" under the Copyright Act—indeed, they were made by L'anza itself. There can also be no dispute that Quality King, although not the owner of the copyright, is the "owner" of the particular copies at issue, having lawfully purchased the products bearing the labels from another distributor. Accordingly, pursuant to the plain language of Section 109(a), Quality King should have

---

[6] In a previous case, *Parfums Givenchy, Inc.* v. *Drug Emporium, Inc.*, 38 F.3d 477 (9th Cir. 1994), *cert. denied*, 514 U.S. 1004 (1995), the Ninth Circuit held that once a work has been imported in violation of Section 602(a), every subsequent distributor violates Section 602(a) as well, regardless of whether the distributor had any connection to the importation. Thus, even though Quality King did not import the goods in question, under the Ninth Circuit's rule Quality King nevertheless violated Section 602(a)'s ban on "importation." That rule, however, contravenes the plain language of Section 602(a), which addresses only the act of "importation," as well as the plain language of Section 109(a), which unambiguously allows the "owner" of any lawfully made copy to sell or otherwise distribute that copy. *See Disenos Artisticos E Industriales, S.A.* v. *Costco Wholesale Corp.*, 97 F.3d 377, 380 (9th Cir. 1996) (expressing doubt as to the correctness of *Parfums Givenchy* rule). The breadth of the Ninth Circuit's rule—which unfairly imposes liability on the unsuspecting remote purchasers of genuine goods—further supports reversal of the judgment below.

been entitled to sell or otherwise dispose of the possession of those particular copies without L'anza's authorization.

Nothing in the language of Section 602(a) overrides Section 109(a)'s blanket authorization. To the contrary, Section 602(a) provides only that unauthorized importation is an "infringement of the exclusive right to distribute copies or phonorecords *under section 106*." 17 U.S.C. § 602(a) (emphasis supplied). Section 106, in turn, provides that it is "subject to sections 107 through 120," which provisions include the first sale doctrine of Section 109(a). *Id.* § 106. Finally, Section 109(a) provides that every purchaser of a copy lawfully made under the Copyright Act is entitled to sell or otherwise dispose of the possession of that copy "[n]otwithstanding the provisions of section 106(3)." *Id.* § 109(a).

This language is unambiguous and dictates the proper result in this case. When it created its labels and affixed them to its products, L'anza had the exclusive right to distribute those labels under Section 106(3), a right that was further defined in Section 602(a) to include the right to control their importation. However, L'anza's Section 106 distribution right—which includes the right to control importation—is expressly made subject to Section 109(a). Thus, once L'anza sold the products to its United Kingdom distributor, every subsequent purchaser, including Quality King, was entitled to sell or otherwise transfer those products without violating L'anza's exclusive distribution rights, including that aspect of the distribution right defined in Section 602(a).

In other words, under Section 109(a) L'anza's sale of its products cut off its right of distribution under Section 106(3) and left no such right to be infringed under Section 602(a). As the Third Circuit explained in *Sebastian*, *supra*:

> Section 602(a) does not purport to create a right in addition to those conferred by section 106(3), but states that unauthorized importation is an infringement of "the exclusive [section 106(3)] right to distribute copies."

> Because that exclusive right is specifically limited by the first sale provisions of § 109(a), it necessarily follows that once transfer of ownership has cancelled the distribution right to a copy, the right does not survive so as to be infringed by importation.

847 F.2d at 1099 (bracketed material in original). Indeed, it is difficult to understand why Congress would have expressly made Section 602(a) part of the Section 106 distribution right except to make clear that the right to control importation was subject to the same limitations as the rest of the distribution right.[7]

There is simply no support in the statutory language for the Ninth Circuit's conclusion that Section 602(a) confers upon a copyright owner the absolute right—divorced from Section 106 and Section 109—to control the importation and subsequent domestic distribution of any copyrighted work that is acquired abroad. When Congress intends to create a separate right independent of the exclusive rights created by Section 106, it does so expressly. Thus, in 1990 Congress provided for a separate right of "attribution and integrity," codified in Section 106A, that permits an author of a visual work to control, in certain circumstances, the subsequent use and display of the work. Importantly, Congress expressly declared that this right was "independent of the exclusive rights provided in Section 106" and that transfer of ownership of the work does not constitute a waiver of the Section 106A right. *See* 17 U.S.C. § 106A(a), (e)(2). That Congress did not likewise provide that the rights conferred by

---

[7] In this respect, it should be noted that the preliminary draft of Section 602(a) provided only that importation would be "an infringement of copyright" if not authorized by the holder of the exclusive distribution right, while the final statute expressly makes unauthorized importation an infringement of the distribution right itself. *Compare* Staff of House Comm. on the Judiciary, 89th Cong., 1st Sess., *Copyright Law Revision, Part 6: Supplementary Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law* 293 (Comm. Print 1965), *with* 17 U.S.C. § 602(a).

Section 602(a) are independent of the Section 106 rights is a further demonstration that it did not intend such a result.

In fact, if the Ninth Circuit were correct that Section 602(a) confers an absolute right that is not subject to Section 109(a), then it would follow that the right is not subject to any of the *other* exceptions contained in Sections 107 through 120. For example, among these exceptions is the "fair use" doctrine of Section 107 which (much like Section 109) provides that "[n]otwithstanding the provisions of section[ ] 106," the "fair use" of a copyrighted work is not an infringement. Under the Ninth Circuit's reasoning, however, Section 602(a) would not be limited by Section 107 and a copyright owner would be able to block the importation and subsequent distribution of any work (such as a scholarly treatise or a newspaper published abroad) that contains any U.S. copyrighted material, regardless of whether the use of the material in the work otherwise would constitute fair use under Section 107. Congress plainly did not provide for such a draconian restriction on the free exchange of expression across international borders.

For all these reasons, the Court need look no further than the plain language of the statute in order to decide this case. This Court has stressed that courts have properly been "reluctan[t] to expand the protections afforded by the copyright without explicit legislative guidance." *Sony*, 464 U.S. at 431. Here, Congress plainly did not provide copyright owners with the expansive protection that L'anza seeks, and "it is not [the Court's] job to apply laws that have not yet been written." *Id.* at 456. *See Sebastian*, 847 F.2d at 1099 ("[T]he controversy over 'gray market' goods, or 'parallel importing,' should be resolved directly on its merits by Congress, not by judicial extension of the Copyright Act's limited monopoly.").

II. THE LEGISLATIVE HISTORY DOES NOT COMPEL A CONTRARY RESULT

It is well-settled that where, as here, the statutory language is unambiguous, that is the end of the question and there is no

cause for the Court to resort to legislative history. For "'[r]esort to legislative history is only justified where the face of the Act is inescapably ambiguous.'" *Garcia* v. *United States*, 469 U.S. 70, 76 n.3 (1984) (citation omitted). *See also Barnhill* v. *Johnson*, 503 U.S. 393, 401 (1992); *Toibb* v. *Radloff*, 501 U.S. 157, 162 (1991); *Blum* v. *Stenson*, 465 U.S. 886, 896 (1984). As explained above, the statutory language is clear that the rights of a copyright owner under Section 602(a) are subject to Section 109(a), and nothing contained in legislative history could override that unambiguous language.

But even if the Court were to conclude that the statutory language is ambiguous, the legislative history (to the extent it touches on the issue at all) supports Quality King's interpretation. As the Ninth Circuit itself recognized, nothing in the legislative history of the Copyright Act of 1976 expressly addresses the interrelationship between Sections 602(a) and 109(a). Pet. App. A12. However, the legislative history of both of these provisions consistently supports the conclusion that Congress intended for Section 602(a) to be subject to the first sale defense.

A. Legislative History of Section 602(a)

The legislative history of Section 602(a) makes quite clear that that provision was to be treated no differently from the other components of the distribution right. Both the House and Senate reports to the 1976 Act clarify that Section 602(a) was intended to apply both to unauthorized "piratical" copies and, in certain circumstances, to copies that were lawfully made. House Report, *supra*, at 169; S. Rep. No. 473, 94th Cong., 1st Sess. 151 (1975) [hereinafter "Senate Report"]. But these reports also make clear that:

> The second situation covered by section 602 is that where the copies or phonorecords were lawfully made *but their distribution in the United States would infringe the U.S. copyright owner's exclusive rights*. As already said, the mere act of importation *in this situation* would constitute an act of infringement and could be enjoined.

House Report, *supra*, at 170; Senate Report, *supra*, at 152 (emphasis supplied).

This language plainly reveals that Section 602(a) was intended to apply to lawfully made copies only where subsequent distribution would infringe the U.S. copyright owner's exclusive rights delineated in Section 106(3). It is only "in this situation" that importation would constitute an act of infringement. Of course, one of the principal instances where distribution in the United States would *not* violate the copyright owner's exclusive rights is where the copyright owner has already sold copies of the work. In this situation, Section 109(a) provides that any subsequent owner of a copy may sell or otherwise dispose of that copy without violating the copyright owner's exclusive distribution right. Accordingly, the legislative history confirms what is clear from the statutory language: Section 602(a) bars importation only when Section 106(3) otherwise would bar subsequent public distribution in this country.

B. Legislative History of Section 109(a)

This understanding is confirmed by the legislative history of Section 109(a). Like the statutory language itself, the legislative history of Section 109(a) confirms that that provision was intended to provide that any owner of a lawfully made copy may dispose of that copy in any manner without violating the copyright owner's right of distribution.

The first sale doctrine was originally a judicially crafted exception to the copyright owner's exclusive right to distribute (referred to in earlier statutes as the right to "vend"). Thus, in *Bobbs-Merrill Co.* v. *Straus*, 210 U.S. 339 (1908), this Court construed the Copyright Act in existence at that time to include a first sale doctrine. In that case, a copyright holder had attempted to control the resale price of its books by including a restriction in the book's copyright notice, and had contended that the right to control further sales in this manner was part of its exclusive right to vend. The Court disagreed, holding that "[t]he purchaser of a book, once sold by authority of the owner of the copyright, may sell it again,

although he could not publish a new edition of it." *Id.* at 350. The Court held that once the copyright owner had sold its works it had "exercised the right to vend" and that adding an exclusive right to control future retail sales "would give a right not included in the terms of the statute" and would "extend its operation, by construction, beyond its meaning." *Id.* at 351.

Congress then codified the first sale doctrine in Section 41 of the Copyright Act of 1909 (later renumbered Section 27). That section provided, in part, that "nothing in this title shall be deemed to forbid, prevent, or restrict the transfer of any copy of a copyrighted work the possession of which has been lawfully obtained." Act of July 30, 1947, ch. 391, § 27, 61 Stat. 652, 660 (codifying and amending Act of Mar. 4, 1909, ch. 320, § 41, 35 Stat. 1075, 1084). The legislative history of that enactment—from which the first sale doctrine apparently derives its name—made clear Congress' intent that "it would be most unwise to permit the copyright proprietor to exercise *any control whatever* over the article which is the subject of copyright after said proprietor has made the first sale." H.R. Rep. No. 2222, 60th Cong., 2d Sess. 19 (1909) (emphasis supplied).

When Congress extensively revised the Copyright Act in 1976, it enacted Section 109(a) in its current form. The legislative history of that provision notes that "as section 109 makes clear, *the copyright owner's rights under section 106(3) cease with respect to a particular copy or phonorecord once he has parted with ownership of it.*" House Report, *supra*, at 62; Senate Report, *supra*, at 58-59 (emphasis supplied). As Congress explained, "the copyright owner's exclusive right of public distribution would have no effect upon anyone who owns 'a particular copy or phonorecord lawfully made under this title' and who wishes to transfer it to someone else or to destroy it." House Report, *supra*, at 79; Senate Report, *supra*, at 71. Thus, "the outright sale of an authorized copy of a book frees it from *any copyright control* over its resale price or other conditions of its future disposition." *Id.* (emphasis supplied).

As can be seen, the legislative history of Section 109(a) and the case law from which it was derived make clear—like the statute itself—that the provision was intended to be an unqualified right for any owner of a lawfully made copy to distribute or otherwise dispose of that copy. Once the copyright owner has parted with ownership of a copy, Congress intended that his distribution rights would "cease" and "have no effect" on a subsequent owner who wishes to dispose of the copy, and that the copy would be freed from "any copyright control" over its resale price or future disposition. Yet L'anza nevertheless contends that it has the right to use Section 602(a) to control the importation and subsequent distribution of its products, and thereby maintain a higher domestic resale price for those products, merely because the products at one point left the country. Such an evisceration of the first sale doctrine is contrary to the legislative history as well as the plain language of the statute.

C. Informal Panel Discussions on 1976 Act

The Ninth Circuit, largely ignoring this legislative history, relied instead on "scenarios that were discussed by representatives of the printing and recording industry" during informal panel discussions held more than a decade before the statute was enacted. *See* Pet. App. A12-A13. Such statements by lobbyists and other interested parties—which were neither made by a member of Congress nor included in the official House or Senate reports—are not legislative history and are therefore to be accorded no significance in interpreting the statute. *See, e.g., Kelly* v. *Robinson*, 479 U.S. 36, 51 n.13 (1986).[8] Representatives of the printing and recording

[8] Moreover, in the foreword prepared by the House Judiciary Committee accompanying the comments relied on by the Ninth Circuit, the Committee stated that it "neither approve[d] or disapprove[d] of any of the views expressed therein." Staff of House Comm. on the Judiciary, 88th Cong., 1st Sess., *Copyright Law Revision, Part 2: Discussion and Comments on Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law*, Foreword (Comm. Print 1963) [hereinafter *1961-1962 Discussions*].

industry may indeed have desired an absolute right to block imports of certain competing copies in order to maintain discriminatory pricing regimes. But their personal views, expressed years before the statute was enacted, can shed no light whatsoever on what that statute actually provides.[9]

Even if these discussions were relevant, however, when the precise question now before the Court arose during hearings, it was recognized by the drafters of Section 602 that the language of Section 109 would restrict the proposed import prohibition. During a 1964 panel discussion, a representative of the Authors League of America asked whether the following scenario would constitute infringement under the proposed Section 602 (then numbered Section 44): "some American importer buys [a book] from a German jobber, who legitimately bought copies from the German publisher who had the authority to make and sell them," and the "American importer then sells them to a retail bookseller, and the retail bookseller sells one of these copies." Staff of House Comm. on the Judiciary, 88th Cong., 2d Sess., *Copyright Law Revision, Part 4: Further Discussion and Comments on Preliminary Draft for Revised U.S. Copyright Law* 210 (Comm. Print 1964) (statement of Mr. Karp) [hereinafter, "*1963-1964 Discussions*"]. More specifically, the authors' representative asked whether the first sale defense in proposed Section 109 would be applicable, noting that a contrary interpretation might "run[ ] into the problem of restricting his transfer of his lawfully obtained copies." *Id.* at 211.

The General Counsel of the Copyright Office—the agency that prepared the preliminary drafts of the 1976 Act—

---

[9] And in any event, Congress was also aware of the view, expressed by a library representative in commenting on a draft of Section 602, that in light of the first sale doctrine "[o]nce a copyrighted article is lawfully purchased, there should be no geographical restriction on where the purchaser can resell." *Copyright Law Revision, Part 1: Hearings Before the Subcomm. No. 3 of the House Comm. on the Judiciary*, 89th Cong., 1st Sess. 468 (1965) (statement of Robert T. Jordan of the Council on Library Resources) (citing first sale provision).

responded that the "whole answer depends on whether the distribution that would take place in the United States would itself constitute an infringement of copyright." *Id.* (statement of Mr. Goldman). The Copyright Office representative, moreover, consistently espoused that interpretation during the entire discussion.[10] While these statements are in no sense legislative history, they do indicate the understanding of the original governmental drafters of Section 602 that the first sale doctrine would limit the right to prohibit imports if—but only if—it would limit the right to prohibit subsequent distribution in the United States. In other words, if domestic distribution would itself be infringement, then the copyright holder could block importation. But if domestic distribution would not be infringement under the first sale doctrine, then importation would be permitted.

III. APPLYING SECTION 109(a) IN THIS CASE DOES NOT RENDER SECTION 602(a) MEANINGLESS

The Ninth Circuit ultimately based its holding not on the language of the statute or on actual legislative history, but rather on its belief that Section 602(a) would be rendered "meaningless" if Quality King were allowed to prevail. *See* Pet. App. A9, A11. As explained below, the Ninth Circuit was mistaken. Applying the first sale doctrine to Section 602(a) does not render that statute meaningless at all.

---

[10] *See id.* at 203 (proposed Section 44 addresses "importation for distribution in the United States of foreign copies that were made under proper authority *but that, if sold in the United States, would be sold in contravention of the rights of the copyright owner who holds the exclusive right to sell copies in the United States*"); *id.* at 203-204 ("the importation of copies for distribution in the United States *in contravention of the rights of the copyright holder in the United States*, would be an infringement of copyright"); *id.* at 204 (under proposed provision, "the only question is whether their distribution in the United States would constitute a violation of the rights of the copyright owner in the United States"); *id.* at 206 ("If there is no one whose rights are being infringed by distribution in the United States, there is nothing that this section applies to.") (emphases supplied).

To the contrary, Section 602(a) provides the copyright owner with an important remedy that otherwise would not exist: the ability to deter and block the importation of copyrighted materials prior to actual public distribution in circumstances where that subsequent distribution would be an infringement under Section 106(3).

A. Section 602(a) Provides an Additional Remedy That Otherwise Would Not Exist

As the Ninth Circuit recognized (*see* Pet. App. A12), absent Section 602 the act of "importation" would not constitute a "distribution" of a copy that could infringe the copyright owner's distribution rights. That is because importation does not otherwise fall within the definition of distribution in Section 106(3). *See, e.g.*, *Hotaling* v. *Church of Jesus Christ of Latter-Day Saints*, __ F.3d __, 1997 WL 356930 at *3 (4th Cir. June 30, 1997) ("In order to establish 'distribution' of a copyrighted work, a party must show that an unlawful copy was disseminated 'to the public.'") (quoting 17 U.S.C. § 106(3)); *National Car Rental Sys., Inc.* v. *Computer Assocs. Int'l, Inc.*, 991 F.2d 426, 434 (8th Cir.) (infringement of distribution right requires an actual dissemination of copies), *cert. denied*, 510 U.S. 861 (1993); 2 Melville B. Nimmer & David Nimmer, *Nimmer on Copyright* § 8.11[A] at 8-137 (1997) (same). Thus, as Congress recognized, under Section 602(a) a copyright owner could sue an unauthorized importer for damages and enjoin him from making use of the copies "even before any public distribution in this country has taken place." House Report, *supra*, at 170; Senate Report, *supra*, at 152. This is in accord with Congress' understanding, discussed above, that Section 602(a) would apply whenever "distribution in the United States would infringe the U.S. copyright owner's exclusive rights." *Id.*

Construed in this manner, Section 602(a) is far from "meaningless." It allows a copyright owner to prevent importation of copyrighted works in any situation where the copyright owner's distribution right under Section 106(3) still survives for the particular copy in question. If the first

sale doctrine would not protect subsequent distribution, then it would not protect importation either. Accordingly, Section 602(a) provides copyright owners with a potent weapon that they would not otherwise have: the ability to block importation of copies *before* they have actually been distributed in this country in violation of the owner's exclusive rights. The statute thereby obviates the need for the copyright owner to wait for public distribution to occur, at which point it might be difficult or impossible for the copyright owner to prevent the distribution from occurring. This is particularly so if the copies find their way into the hands of multiple distributors. For even if the first sale doctrine would not prevent the copyright owner from suing those resellers, the costs of locating and proceeding against numerous small retailers in numerous jurisdictions could be prohibitive.

B. Section 602(a) Applies to Non-Piratical Copies

The Ninth Circuit also asserted that applying Section 109(a) to Section 602(a) would render the latter statute meaningless because there would be no circumstances in which it could be applied consistent with Congress' apparent intent that Section 602(a) apply to both "piratical" and "non-piratical" copies. As explained above, however, the fact that Section 602(a) provides the copyright owner with additional procedural advantages that otherwise would not exist is a complete answer to the contention that the statute would have no meaning if subject to Section 109(a). Moreover, there can be no dispute that the Section 106(3) right to control domestic public distribution applies both to piratical and non-piratical copies and that it is fully subject to Section 109(a). Accordingly, just as this domestic distribution right is not "meaningless," Section 602(a)—which provides an additional remedy against importation prior to any infringing public distribution—also has "meaning" when subject to Section 109(a) in the same manner.

It is therefore unnecessary to catalog here all of the hypothetical instances in which Section 602(a) would prohibit the importation of works because the terms of Section 109 would not apply. But to the extent that inquiry is

relevant to the question presented by this case, a few examples will suffice to demonstrate that Section 602(a) does in fact have substantial practical effect under the interpretation we advocate.

First, there is no dispute that Section 602(a) would apply fully to the importation of piratical works, which was the principal evil Congress was attempting to address. Because Section 109(a) applies only to copies that were "lawfully" made, the pirate himself—as well as anyone else who attempts to import or distribute counterfeit works—will not receive Section 109(a) protection. *See* House Report, *supra*, at 79; Senate Report, *supra*, at 72; 2 Nimmer & Nimmer, *supra*, § 8.12[B][4] at 8-158 to 8-159.

But in addition, Section 602(a) also has significant meaning when applied to non-piratical works. For example, because Section 109(a) applies only to the "*owner* of a particular copy or phonorecord," a thief who stole a lawfully made copy abroad would be prohibited from importing it, as the thief plainly would not be the "owner" of that copy. *See* 2 Nimmer & Nimmer, *supra*, § 8.12[B][5] at 8-159. Importation of stolen works was one of the principal problems the Ninth Circuit believed Section 602(a) was designed to prevent. *See* Pet. App. A13 (citing *1961-1962 Discussions*, *supra*, at 213 (statement of Mr. Sargoy)); *see also 1963-1964 Discussions*, *supra*, at 214 (statement of Mr. Whicher). Yet contrary to the Ninth Circuit's apparent belief, the first sale doctrine would not prevent the application of Section 602(a) in such circumstances, for the reasons stated above. The same analysis, moreover, would apply to a bailee of a copyrighted work (for example, a shipper or a warehouse company) that attempts to import the work without authorization. Because the bailee is not the owner of the copy, it would not be entitled to the protection of Section 109(a). *See Little, Brown & Co.* v. *American Paper Recycling Corp.*, 824 F. Supp. 11 (D. Mass. 1993).

Likewise, where a copyright owner has licensed a foreign company to reproduce its works but has not given the licensee title to the copies or other incidents of ownership,

Section 602(a) would prevent the licensee from importing the works without the authorization of the copyright owner. That is because the licensee would not be considered the "owner" of the particular copy and therefore would not be entitled to the protection of Section 109(a), whether in an action for unauthorized importation under Section 602(a) or for infringement of other components of the Section 106(3) distribution right. *See, e.g., United States* v. *Drebin*, 557 F.2d 1316, 1326 (9th Cir. 1977) (under 1909 Act, defendants accused of unlawfully distributing motion pictures could not utilize first sale defense where works had only been licensed and never sold), *cert. denied*, 436 U.S. 904 (1978); *United States* v. *Wise*, 550 F.2d 1180, 1190-94 (9th Cir.) (same), *cert. denied*, 434 U.S. 929 (1977); *cf. Microsoft Corp.* v. *Harmony Computers & Electronics, Inc.*, 846 F. Supp. 208, 213 (E.D.N.Y 1994) ("Entering a license agreement is not a 'sale' for purposes of the first sale doctrine.").[11]

Finally, where an author has assigned the United States copyright in his work to a domestic entity and the foreign copyright to an unrelated foreign entity, it is likely that Section 109(a) would not preclude the United States copyright holder from preventing the unauthorized importation and distribution of copies made abroad solely pursuant to the foreign copyright. Section 109(a) applies only to copies lawfully made "under this title," *i.e.*, pursuant to the terms of the *United States* Copyright Act. Pursuant to Section 106, the U.S. copyright holder has the exclusive U.S. right to reproduce, and to authorize the reproduction of, the work that is the subject of the domestic copyright. Thus, a copy made by, or under the authorization of, the United States copyright holder, would doubtless be "lawfully made under this title"

---

[11] That is not to say, however, that anyone who purchases a copy from a licensee would be unable to claim the protection of Section 109(a). As explained above, *see supra* n. 6, as long as a subsequent purchaser is the valid "owner" of a copy lawfully made under the Copyright Act, the plain language of Section 109(a) protects that purchaser regardless of whether the copy may previously have been distributed or imported in violation of the copyright owner's distribution rights.

regardless of whether it is made in this country or abroad.[12] That is plainly the case here, as the labels in question were made by L'anza itself. But a lawful copy made by an unrelated entity solely pursuant to a *foreign* copyright, without the express or implicit authorization of the U.S. copyright owner, is arguably not made "under this title" within the meaning of Section 109(a). Accordingly, under that interpretation, the foreign copies, although not "piratical" because they were made pursuant to a valid foreign copyright, would not receive the protection of Section 109(a), whether in an action for unauthorized importation under Section 602(a) or for unauthorized domestic distribution under Section 106 itself. In these circumstances, and unlike the facts of the present case, the imported copies would not have been made as a result of any authority "under this title." Because the U.S copyright owner would not have had an opportunity to receive any "reward" from the making of those copies, the policies of the first sale doctrine would not come into play.[13]

---

[12] The Ninth Circuit previously adopted the contrary view that the first sale doctrine does not apply to *any* copies made abroad, regardless of whether they were made by or under the authorization of the U.S. copyright holder. *See BMG Music* v. *Perez*, 952 F.2d 318, 319 (9th Cir. 1991), *cert. denied*, 505 U.S. 1206 (1992); *see also Columbia Broadcasting System, Inc.* v. *Scorpio Music Distributors, Inc.*, 569 F. Supp. 47 (E.D. Pa. 1983), *aff'd without opinion*, 738 F.2d 421 (3d Cir. 1984). The Ninth Circuit, however, has recognized the widespread criticism of that holding—which would eliminate first sale protection even for copies imported or sold here under the authorization of the U.S. copyright holder—and has limited the holding in *BMG* to its facts. *See Denbicare U.S.A. Inc.* v. *Toys "R" Us, Inc.*, 84 F.3d 1143, 1149-50 (9th Cir.), *cert. denied*, 117 S. Ct. 190 (1996); *Parfums Givenchy*, 38 F.3d at 482 & n.8.

[13] This hypothetical situation—a U.S. copyright holder faced with the importation of competing copies made by an unrelated foreign copyright holder without the express or implicit authorization of the U.S. copyright holder—was the principal example cited by the book and record industry during the informal panel discussions on Section 602. *See 1963-1964 Discussions*, *supra*, at 119 (statement of Mr. Pilpel); *id.* at 209 (statement of Mr. Manges); *id.* at 212 (statement of Mr. Pilpel); *id.* at 260 (statement of American Book Publishers Council, Inc.); *1961-1962 Discussions*, *supra*, at 212 (statement of Mr. Manges); *see also* Staff of House Comm. on the Judiciary, 87th Cong., 1st Sess., *Copyright Law Revision: Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law* 125-126 (Comm. Print 1961). It is also the "prototypical" gray market situation identified by this Court in *K Mart*. *See* 486 U.S. at 286.

The Court need not opine here on the precise interpretation of the Copyright Act in these hypothetical situations, and there are doubtless numerous other instances where the right to block importation would survive notwithstanding the applicability of the first sale doctrine. For purposes of this case, the Court need only recognize that, just as the first sale doctrine of Section 109(a) does not render the other components of the distribution right under Section 106(3) (the right to prevent unauthorized sales, rentals, and leases) "meaningless" when applied to non-piratical works, so the importation component has significant meaning as well when read together with Section 109(a).

IV. THE POLICIES OF THE COPYRIGHT ACT DO NOT SUPPORT THE DECISION BELOW

The Ninth Circuit predicated its holding on its view that Quality King's interpretation is contrary to the policies of the Copyright Act. According to the court, the first sale doctrine was intended to ensure that the copyright owner receives "full value" for its copies, and once that value has been obtained "the policy goal of protecting the copyright holder gives way to the policies disfavoring limitations on the alienation of property." Pet. App. A11. The court then concluded that because L'anza sold its products in Europe for substantially less than it charged its domestic distributors, "the unauthorized importation of these goods undercuts L'anza's ability to receive the full value for L'anza products sold in the United States through authorized channels," and that Quality King's attempt to provide consumers with lower domestic prices "is just the evil that Congress sought to prevent in adopting § 602(a)." Pet. App. A14, A15.

In light of the clear statutory language and the supporting legislative history, the Ninth Circuit misconstrued the congressional purpose in enacting § 602, and in any case, such arguments based on the purported policies of the Copyright Act "are better addressed by Congress than the courts." *Stewart* v. *Abend*, 495 U.S. 207, 228 (1990). But regardless, it is the Ninth Circuit's interpretation, not Quality King's, that is at odds with the purposes of the Copyright Act. This Court has stressed that the limited copyright grant is not "primarily designed to provide a special benefit" but rather is "intended to motivate the creative activity of authors * * * by the provision of a special reward, and to allow the public access to the products of their genius after the limited period of exclusive control has expired." *Sony*, 464 U.S. at 429. "'The copyright law, like the patent statutes, makes reward to the owner a secondary consideration.'" *Id.* (quoting *United States* v. *Paramount Pictures, Inc.*, 334 U.S. 131, 158 (1948)).

The first sale doctrine embodies these concerns, and represents an "important balancing of interests." H.R. Rep. No. 735, 101st Cong., 2d Sess. 7 (1990). It reserves the copyright owner's valuable right to control the "first public distribution" of his copies, House Report, *supra*, at 62, Senate Report, *supra*, at 112, but also allows full public access to those copies once that limited period of exclusive control has ended through a sale. The copyright owner has the right to realize whatever value it can obtain for its copies. But once those copies have been sold—for whatever price—the owner's distribution right has terminated and it has no further right to control the price at which the copies are resold. That was the precise rationale of this Court's decision in *Bobbs-Merrill*, now codified in Section 109(a). The first sale doctrine embodies the proposition that once the copyright owner has had some opportunity to obtain a reward from the making of its copies, as L'anza did here, creative activity is not significantly furthered by allowing the owner to restrain subsequent alienation of those copies.

The Ninth Circuit's holding is contrary to these policies. According to the Ninth Circuit, Section 602(a) was intended to protect private commercial strategies under which manufacturers attempt to maintain higher resale prices for their goods in this country than abroad, and to prevent the "evil" of lower domestic prices. Thus, while the Copyright Act is designed to "motivate the creative activity of authors" and "makes reward to the copyright owner a secondary consideration," *Sony*, 464 U.S. at 429 (quotation omitted), the Ninth Circuit's interpretation makes reward to the copyright owner the primary consideration of Section 602(a) and does little, if anything, to further motivate the creative activity of authors.

Moreover, even if the first sale doctrine were concerned with protecting a copyright owner's ability to receive "full value" for his copies—a term that appears nowhere in either the statute or the legislative history—L'anza has in fact received the full value it sought for each of its products. The Copyright Act entitles L'anza to no more. *See Sebastian*, 847 F.2d at 1099 ("[T]he language of section 602(a) [does not] intimate that a copyright owner who elects to sell copies abroad should receive 'a more adequate reward' than those who sell domestically. That result would occur if the holder were to receive not only the purchase price, but a right to limit importation as well.").

The Ninth Circuit's subjective "full value" approach would have severe practical consequences for free trade in copyrighted works. Each importer and subsequent reseller of a copyrighted work would need to search the chain of title and determine if the copyright owner ultimately received what that owner or a court would consider the "full" value for that work. Congress did not intend such an impractical and burdensome result. To the contrary, it is black letter law that courts are not to inquire into the adequacy of consideration. *See, e.g.*, Restatement (Second) of Contracts § 79(b) & cmt. c (1981). That fundamental principle is embodied in the first sale doctrine, which is concerned only with whether a subsequent reseller is the owner of a copy lawfully made, and not with the particular price at which the copy was earlier

sold. *See, e.g.*, *Denbicare*, 84 F.3d at 1151 ("there is no justification for reexamining the adequacy of the 'reward' received by the copyright owner in an alleged first sale where the owner has consented to that sale"); *Independent News Co.* v. *Williams*, 293 F.2d 510, 515-517 (3d Cir. 1961) (first sale doctrine applies to copies sold at salvage price); *Harrison* v. *Maynard, Merrill & Co.*, 61 F. 689 (2d Cir. 1894) (same).

Thus, just as the publisher in *Bobbs-Merrill* could not use the Copyright Act's general right of distribution as a means of furthering its strategy of resale price maintenance, so L'anza should not be able to use Section 602(a) for similar purposes. Once a copyright owner has parted with a copy, the policies of the Copyright Act do not distinguish the protection afforded that copy based on where or at what price it may ultimately be acquired. Indeed, even under L'anza's interpretation, the first sale doctrine would prevent a manufacturer from using copyright law to maintain different resale prices in different areas of the United States.

If upheld, however, the Ninth Circuit's interpretation would create a two-tiered system under which copies that have ever been distributed abroad receive far greater protection than identical copies that never leave the country. Under such an interpretation, once a manufacturer has sold a product containing copyrighted material in this country, the first sale doctrine would allow any subsequent purchaser to resell the product at any price; but if an identical product from the same lot somehow finds its way abroad, the manufacturer would have the right (at least during the term of the copyright) to control the importation and any subsequent distribution of that product. The effects of such a rule would be far-reaching. For example, used book dealers would be prohibited from importing or reselling genuine copies of U.S. copyrighted works acquired abroad, art dealers would be prevented from doing the same with copyrighted art works, and importers would be prevented from shipping products in containers containing copyrighted labels or instructions.

Absent any indication that Congress intended such harsh restrictions on free trade and commerce, this Court should

not impose them as a matter of copyright "policy." As noted above, manufacturers have failed in their attempts to use trademark and customs laws to further domestic price discrimination. The present attempt is even more misguided. Trademark and customs laws, at least, are primarily grounded in economic concerns, while L'anza's re-sale pricing strategy has nothing whatever to do with the Copyright Act's primary goal of motivating creative activity. The creative worth of product labels—in contrast to the worth of the underlying product or its trademark—is speculative at best. *See Higgins* v. *Keuffel*, 140 U.S. 428, 431 (1891) (Copyright law "does not have any reference to labels which simply designate or describe the articles to which they are attached, and which have no value separated from the articles."). To allow L'anza to use those labels to further a private commercial strategy of maintaining inflated prices in this country would subvert the true purposes of the Copyright Act.

Finally, whatever the perceived harms of parallel imports, this case is "considerably less troubling" than the prototypical gray market situation in which a domestic trademark owner must compete with products manufactured abroad by an unrelated entity. *K Mart*, 486 U.S. at 301 (Brennan, J., concurring and dissenting). Here, by contrast, L'anza is "seeking to protect itself from its own competition." *Id.* Because L'anza itself controls the manufacture and first sale of its products, it has "a panoply of options," including private contractual remedies, for controlling its channels of distribution. *Id.* at 302. It cannot, however, use the Copyright Act to implement its market allocation scheme. *Cf. Teleprompter Corp.* v. *Columbia Broadcasting System, Inc.*, 415 U.S 394, 414 n.15 (1974) ("While securing compensation to the holders of copyrights was an essential purpose of [the Copyright] Act, freezing existing economic arrangements for doing so was not."). As Congress made clear, the first sale doctrine "does not mean that conditions on future disposition of copies or phonorecords, imposed by a contract between their buyer or seller, would be unenforceable between the parties as a breach of contract, *but it does mean that they could not be enforced by an action for infringement*

of copyright." House Report, *supra*, at 79; Senate Report, *supra*, at 72 (emphasis supplied). The Court should enforce that clear intent, as set forth in the statute itself.

CONCLUSION

For the foregoing reasons, the judgment of the Court of Appeals should be reversed.

Respectfully submitted,

ALLEN R. SNYDER*
JONATHAN S. FRANKLIN
HOGAN & HARTSON L.L.P.
555 Thirteenth Street, N.W.
Washington, D.C. 20004
(202) 637-5741

WILLIAM T. RINTALA
J. LARSON JAENICKE
MELODIE K. LARSEN
RINTALA, SMOOT, JAENICKE & REES
10351 Santa Monica Boulevard
Suite 400
Los Angeles, CA 90025
(310) 203-0935

* Counsel of Record

Counsel for Petitioner